

Instructions for Filing the Montana Small Business Corporation Tax Return - Form CLT- 4S

Subject To Tax

Every corporation engaged in business in the State of Montana, unless expressly exempt under Montana Code Annotated (MCA), §15-31-102(1), must file an annual return.

Small business corporations electing and qualifying under MCA, §15-31-202 must file an annual return. Note: For years beginning after December 31, 1996, there is no longer a \$10 fee for filing the Montana Form CLT-4S.

When to File

For calendar year taxpayers, the tax is due on or before May 15th. For fiscal year taxpayers, the tax is due on or before the 15th day of the fifth month after the close of the taxable year. Interest of 12% per annum will accrue on any tax liability which has not been paid by the due date of the return.

A corporation shall be allowed an **automatic extension** of time up to six months following the date prescribed for the filing of its tax return (MCA, §15-31-111(3)(a)). **No application for extension is necessary.**

Where to File

Mail returns to:

Montana Department of Revenue
125 North Roberts Street
Helena, Montana 59620

Electing to be a Small Business Corporation

In order for a corporation to be treated as a Montana Small Business Corporation, it **must** attach to their Montana CLT-4S a copy

of their federal return (Form 1120S), including all federal schedule K-1's.

Montana Taxable Income

All shareholders, including non-residents, must report their percentage of the corporation's income and deductions derived from Montana sources to the Montana Department of Revenue, Individual Income Tax Division.

Line 1 - Ordinary Income (Loss): The taxable income reported on line 21 of your federal return (Form 1120S) **must** be entered on line 1 of your Montana return (Form CLT-4S).

Lines 2 through 6: The income reported on your federal 1120S; Schedule K, lines 2 through 6; **must** be reported on lines 2 through 6 of your Montana form CLT-4S.

Line 7: Add the ordinary income reported on line 1 and lines 2 through 6; enter the total on line 7.

Lines 8 through 11: The deductions reported on your federal 1120S; Schedule K, lines 7 through 10; **must** be reported on lines 8 through 11 of your Montana form CLT-4S.

Line 12: Add lines 8 through 11; enter the total on line 12.

Line 13 - Montana Additions: In order to compute Montana taxable income, certain items must be added to income. The Montana Corporation License Tax; Other State, Local, and Foreign Income Taxes; and the Federal Environmental Tax **must** be added back to income (MCA, §15-31-114(e)). These taxes, based on income or profits, are reported on line 13(a).

Municipal bond interest **is** taxable and reported on line 13(b) (MCA, §15-31-113(a)).

A detailed breakdown of other additions to income must be attached to the CLT-4S and reported on line 13(c).

Line 14 - Montana Reductions: In order to compute Montana taxable income, certain items must be deducted from income.

Deductions allowable in computing your Montana taxable income are reported on line 14. A detailed schedule **must** be attached to the return. Examples are:

- The amount of contributions made by a small business to its independent liability fund (MCA, §33-27-117(1)).
- A portion of an investment made in a building for the purpose of conserving energy (MCA, §15-32-103). In order to qualify, the building must be used in the taxpayer's business and the result of the investment must be a substantial reduction in the amount of energy needed to render the building usable.
- Current year capital losses **must** be deducted in the year incurred (MCA, §15-31-114(b)). Attach a copy of the Federal Schedule D to your CLT-4S.
- An additional 10% deduction for the purchase of recycled material as computed on Form RCYL-CT, Part IV. (MCA, § 15-32-610) A copy of form RCYL-CT **must** be attached to your return.

Line 15 - Income Taxable to Shareholders: The Montana income taxable to shareholders is the sum of the following:

(7 - 12 + 13 - 14); enter the total income on line 15.

Line 16 - Income Apportioned to Montana: For multistate taxpayers, multiply the amount reported on line 15 by the apportionment percentage from line 5 of Schedule K. Enter income apportionable to Montana on line 16.

Line 17 - Income Allocated Directly to Montana: For multistate taxpayers, any income determined to be Montana allocable income **must** be reported on line 17.

Instructions for SCHEDULE K

In most cases, multistate taxpayers must compute their Montana taxable income by means of the apportionment factor calculated on Schedule K. The apportionment factor is the standard UDITPA (Uniform Division of Income for Tax Purposes Act) three-factor formula of property, payroll, and sales used by most states with a corporate tax based on net income.

When a corporation is engaged in a unitary business within and without the State of Montana, the net income assignable to Montana must be determined using the apportionment factor. A business is unitary when the operations of the business within the state is dependent upon or contributory to the operations of the business outside the state. Schedule K **must** be fully completed by every corporation carrying on a unitary business within and without the state.

If the determination of income attributable to Montana is made on some basis other than the apportionment method, a full and detailed description of the operation and an explanation of the method proposed **must** accompany the return. However, schedule K **must** be completed even in a case where a taxpayer uses an alternative method of determining Montana taxable income.

A detailed explanation of the calculation of apportionment factor is as follows:

Property Factor (Line 1, Schedule K): MCA, §15-31-306, defines the property factor as a fraction, the numerator being the average value of the taxpayer's real and tangible personal property owned or rented and used in Montana in the production of business income during the tax period and the denominator being the average value of all the taxpayer's real and tangible personal property owned or rented and used in the production of business income during the tax period.

Property owned by the taxpayer is valued at its original cost. Real and tangible personal property used in the business includes land, buildings, machinery, equipment, stocks of goods, inventories, and other tangible property actually used in connection with the production of business income to be apportioned, but it does not include money, accounts receivable, or other intangible property, real property held for investment or nonbusiness purposes or idle property of any nature.

Migratory property must be included in the numerator of the factor to the extent utilized in Montana.

Unless otherwise required by the Department of Revenue, the average value of owned property shall be determined by averaging the values at the beginning and ending of the tax period.

Property rented by the taxpayer must be valued at eight times the net annual rental rate. Rental expenses may not be averaged. The rental expenses for the current year must be used in the property factor.

Payroll Factor (Line 2, Schedule K): MCA, §15-31-308, defines the payroll factor as a fraction, the numerator being the total amount paid in Montana during the tax period by the taxpayer for compensation attributable to the production of business income and the denominator being the total amount paid everywhere during the tax period for compensation attributable to the production of business income.

MCA, §15-31-309, states that payroll is paid in Montana if:

- the individual's service is performed entirely within the state;
- the individual's service is performed both within and without the state, but the service performed without the state is incidental to the individual's service within the state; or
- some of the service is performed in the state and
 - the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in the state; or
 - the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in this state.

Sales Factor (Line 3, Schedule K): The term "sales" means all gross receipts of the taxpayer exclusive of nonbusiness income. MCA, §15-31-310, defines the sales factor as a fraction, the numerator being the total sales of the taxpayer in Montana during the tax period and the denominator being the total sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are in the state if:

- the property is delivered or shipped to a purchaser, other than the United States Government; or
- the taxpayer is not taxable in the state of the purchaser.

Sales, other than sales of tangible personal property, are in this state if:

- the income-producing activity is performed in this state; or
- the income-producing activity is performed both in and outside this state and the greater proportion of the income-producing activity is performed in this state than in any other state, based on costs of performance.

Sum of Factors (Line 4, Schedule K): Add lines 1, 2, and 3; enter the sum of the factors on line 4.

Apportionment Factor (Line 5, Schedule K): Divide line 4 by the number of factors present. Enter the apportionment factor on line 5 of Schedule K and on line 16, page 1.

Shareholder Information

The shareholder information schedule on page 2 **must** be completed with each shareholder's name and social security number.